

Message Text

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ACTION PM-04

INFO OCT-01 EA-07 ISO-00 CIAE-00 H-02 INR-07 L-03 NSAE-00

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TO SECSTATE WASHDC 9117

SECDEF WASHDC

INFO AMEMBASSY JAKARTA

CNO WASHDC

CINCPAC

C O N F I D E N T I A L SECTION 1 OF 2 SEOUL 6759

CINCPAC FOR POLAD

E.O. 11652: GDS

TAGS: MASS PARM ESTC ID KDS

SUBJ: KOREAN PATROL BOAT SALE TO INDONESIA

REFS: (A) STATE 196213, (B) JAKARTA 10156, (C) SEOUL 6039

(D) STATE 187321, (E) STATE 205845

JOINT EMBASSY JUSMAG-KOREA MESSAGE

1. SUMMARY: IN THE COURSE OF AUGUST 11 MEETING WITH EMBASSY/ JUSMAG, KTMI PRESENTED IN DETAIL ITS SIDE OF PATROL BOAT SALE TO INDONESIA CONTROVERSY WITH TACOMA BOAT OF U.S. KTMI CLAIMED THAT DATA ACQUIRED UNDER THE U.S. MUNITIONS CONTROL (MC) LICENSE WAS USED ONLY AS APPROVED AND WAS NOT IN ANY WAY APPLIED TO ITS DESIGN FOR A PATROL BOAT TO INDONESIA. ALSO, THEY STATED FINANCING OFFERED BY ROKG IS IN FORM OF STANDARD EXPORT PROMOTION LOAN TO MANUFACTURER, NOT TO GOI, AND THAT IT COVERS ONLY BOAT AND PROPULSION, NOT WEAPONS SYSTEM.

2. EMBASSY/JUSMAG-KOREA MET WITH REPRESENTATIVES OF KOREA TACOMA

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MARINE INDUSTRIES (KTMI) ON AUGUST 11, 1976 AT U.S. INITIATIVE

AND WERE BRIEFED BY KTMI ON ITS RELATIONSHIP WITH TACOMA BOAT COMPANY (TBC) AS WELL AS ITS COMMERCIAL NEGOTIATIONS WITH GOVERNMENT OF INDONESIA (GOI). KTMI WAS REPRESENTED BY GEORGE SALISBURY, MANAGING DIRECTOR AND LEE SUNG-JIN, DIRECTOR OF ENGINEERING. EMBOFFS OPENED BY REVIEWING ISSUE ALONG LINES REF D.

3. KTMI STATED THAT IT IS NOW WHOLLY OWNED ROK FIRM (THE JOINT VENTURE WITH TBC HAVING BEEN TOTALLY DISSOLVED), DESIGNATED BY ROK GOVERNMENT AS DEFENSE INDUSTRY. KTMI-TBC RELATIONSHIP IS PRESENTLY LIMITED TO TECHNICAL SERVICES AGREEMENT, UNDER WHICH KTMI PERSONNEL ARE BEING TRAINED AT TBC. THE ONLY TECHNICAL INFORMATION TRANSFERRED THUS FAR UNDER AGREEMENT WAS FOR ASSISTANCE TO KTMI IN CONSTRUCTION OF PSMM CLASS VESSELS FOR ROK NAVY. (COMMENT: ASSUME THIS IS CASE APPROVED BY MC LICENSE 141-74 NOTED IN REF D PARA 1). KTMI STATES THAT NO DESIGN OR MANUFACTURING DATA EXCEPT THAT COVERED UNDER LICENSE FOR PSMM IN-COUNTRY CONSTRUCTION HAS BEEN TRANSFERRED FROM TBC TO KTMI. IT ALSO KTMI'S CONTENTION THAT DATA TRANSFERRED UNDER LICENSE WAS USED ONLY FOR PURPOSE SPECIFIED - CONSTRUCTION OF PSMM FOR ROK NAVY USE.

4. KTMI STATED THAT IT FIRST APPROACHED GOI IN DECEMBER 1975, AND SHOWED GOI NAVY PRELIMINARY DESIGN FOR 150 FOOT, 4 DIESEL, ALUMINUM OR STEEL-HULLED PATROL CRAFT WITH NO PRICE QUOTED OR FINANCING DISCUSSED. UPON DETERMINING THAT GOI SERIOUSLY INTERESTED KTMI APPROACHED ROK GOVERNMENT REQUESTING FINANCIAL ASSISTANCE IN FORM OF COMMERCIAL LOAN FROM ROKG-ADMINISTERED SHIPBUILDING EXPORT CREDIT FUND. ROKG AGREED TO MAKE LOAN AVAILABLE FROM FUND (WHICH OPEN TO ALL ROK SHIPYARDS AS INSTRUMENT TO SUPPORT EXPORT ORDERS) WITH CAVEAT THAT VESSELS SOLD TO GOI MUST BE QUOTE KOREAN UNQUOTE, WITH DESIGN OWNED BY KTMI. TO COMPLY WITH THIS REQUIREMENT AND TO MEET THE SPECIFIC OPERATIONAL CHARACTERISTICS REQUESTED BY GOI NAVY, KTMI INITIATED AN IN-HOUSE DESIGN EFFORT. TO HELP KTMI PERSONNEL WITH THEIR DESIGN, FORMER TBC VICE PRESIDENT FOR ENGINEERING PAUL VERTREES WAS CONTACTED AND HIS ASSISTANCE AS TECHNICAL DESIGN CONSULTANT SOLICITED. THE ASSISTANCE OF VERTREES IS APPARENTLY THE HUB OF THE CONTROVERSY WITH REGARD TO TBC'S SUGGESTION TO USG THAT KTMI IS VIOLATING MC LICENSE WITH THIRD COUNTRY SALE OF WHAT TBC CLAIMS IS ITS DESIGN.

5. KTMI ASSERTS VERTREES ASSISTANCE TOOK FORM OF HIS
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PROVIDING TO KTMI BENEFITS OF HIS OWN ESTABLISHED BACKGROUND AS DESIGNER OF HIGH SPEED PATROL CRAFT, AND THAT TO SUPPORT HIS ADVICE TO KTMI HE COLLECTED FOR KTMI PUBLICLY-AVAILABLE NON-PROPRIETARY TECHNICAL INFORMATION. UNDER CONSULTANT CONTRACT WITH KTMI VERTREES LED THREE-MAN TECHNICAL ASSISTANCE TEAM IN ROK WHICH "LOOKED OVER THE SHOULDERS" OF KTMI DESIGNERS AND HELPED THEM WITH THEIR NEW DESIGN. AT THIS TIME KTMI ALSO WAS PREPARING TO BID ON COASTAL PATROL SHIP (CPS) FOR THAILAND AND THUS

NEW DESIGN WAS DESIGNATED CPS.

6. SALISBURY READ TEXT OF A JUNE 14 LETTER FROM VERTREES TO STATE OFFICE OF MUNITIONS CONTROL SEEKING APPROVAL FOR HIS PROPOSED ASSISTANCE TO KTMI FOR DESIGN OF PATROL CRAFT. HE SAID REPLY HAD BEEN TO EFFECT THAT VERTREEE WAS PERMITTED TO PROVIDE ADVICE TO KTMI, BUT "NOT FOR THIRD COUNTRY" USE. SALISBURY STRESSED HIS BELIEFT THAT VERTREES' EFFORT WAS LEGAL AND ESTABLISHED COMMERCIAL PRACTICE IN SHIPBUILDING/DESIGN COMMUNITY AND THEREFORE HIS APPROACH TO STATE-OMC WAS MORE A COURTESY THAN LEGAL REQUIREMENT.

7. SALISBURY STATED THAT IN JULY 1976 CPS DESIGN BECAME PATROL SHIP KOREA (PSK) DESIGN WHICH KTMI OFFERED TO GOI IN ITS FIRST DETAILED PROPOSAL. KTMI IS CONVINCED THAT ITS CPS/PSK DESIGN IS SUBSTANTIALLY DIFFERENT FROM ANY TBC DESIGN, NOT ONLY IN DIMENSIONS AND LAYOUT OF SHIP BUT MORE IMPORTANTLY IN TERMS OF POWER PLANT AND PERFORMANCE. A KTMI COMPARISON OF TBC DESIGNED PSMM/PSMM MK-1 AND KTMI DESIGNED PSK/CPS VESSELS WAS PROVIDED. ESSENTIAL POINTS OF CONTRACT ARE:

	PSMM/PSMM MK-1	PSK/CPS
LOA	50.14M	53.5 M
BEAM	7.28 M	8.0 M
DISPLACEMENT	253 TONS	280 TONS
SPEED (MAX)	39 KTS.	41 KTS.
ENDURANCE	1,800 N.M.	2,600 N.M.
MAX POWER OF MAIN ENGINE	17,400	23,000
MAIN ENGINE		
CONFIGURATION	6 GAS TURBINES	1 LM-2500
HULL CONST.	ALUM.	ALUM.

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NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 MC-02 ACDA-07

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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 9118
SECDEF WASHDC
INFO AMEMBASSY JAKARTA
CNO WASHDC
CINCPAC

C O N F I D E N T I A L SECTION 2 OF 2 SEOUL 6759

JOINT EMBASSY JUSMAG-KOREA MESSAGE

CINCPAC FOR POLAD

8. WITH COMPLETION OF PSK DESIGN KTMI SATISFIED ROKG REQUIREMENT AND RECEIVED TENTATIVE APPROVAL FOR USE OF LOAN FACILITY INSTALLMENT IN MAKING SALE. THE SUPPORT TO KTMI WILL TAKE FORM OF SELLERS LOAN TO KTMI FROM ROK FUND ADMINISTERED BY RECENTLY ESTABLISHED ROK EXPORT-IMPORT BANK. (SUCH LOANS HAVE BEEN MADE IN BOTH WON AND FOREIGN EXCHANGE: ASSUME KTMI WILL SEEK MAXIMUM FX PORTION.) KTMI ORIGINALLY ASKED ROKG TO ARRANGE FOR BUYERS CREDIT ON GOVERNMENT-GOVERNMENT BASIS WITH GOI BUT ROKG HELD THAT ROK LAW DID NOT PERMIT SUCH AN ARRANGEMENT. ROK LOAN WILL COVER APPROXIMATELY 80 PERCENT OF APPROXIMATELY \$40 MILLION CONTRACT FOR FOUR SHIPS. OGIRINAL KTMI-GOI DISCUSSIONS WERE IN TERMS OF 6 SHIPS BUT ROKG APPARENTLY WAS NOT WILLING TO FUND LOAN AT 80 PERCENT LEVEL IN AMOUNT REQUIRED FOR 6 SHIP PROGRAM. THE \$10 MILLION COST OF EACH SHIP COMPRISES ABOUT \$5 MILLION FOR MATERIALS OF WHICH ABOUT 50 PERCENT WILL BE U.S. SOURCED (ALUMINUM PLATE, ELECTRICAL SYSTEMS, VALVES-PIPING, AND MAIN GAS TURBINE). FX USAGE WILL COMPRISE ABOUT ONE HALF TOTAL COST OF VESSELS OR ABOUT \$20 MILLION. PER PARA 8 BELOW, NO FX
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LOANS FOR WEAPONS SYSTEMS PROCUREMENT WILL BE UTILIZED BY KTMI OR ROKG - THIS BEING RESPONSIBILITY OF GOI.

9. WHILE EMBASSY UNDERSTANDS CONCERN NOTED IN REF E PARA 1, WE BELIEVE THAT THE CREDIT BEING EXTENDED BY ROKG, EITHER VIA ITS EXPORT IMPORT BANK OR OTHER FACILITY, TO KTMI IS A REASONABLE COMMERCIAL PRACTICE FOR A NATION ATTEMPTING TO MAINTAIN ITS SHIPYARDS BY ENCOURAGING EXPORT ORDERS. CARRIED TO ITS LOGICAL EXTREME, REFTEL WOULD ARGUE AGAINST ANY EXPORT CREDITS, A POSITION WE REGARD AS UNTENABLE. CONCEIVED MORE NARROWLY, THE CREDIT TO KTMI IS FOR THREE YEARS, AND THIS ONLY BRIEFLY DEFERS A FOREIGN EXCHANGE EARNING, WHICH WOULD OTHERWISE BE LOST. WHILE PART OF THE CREDIT WILL FINANCE IMPORTED RAW MATERIALS, AND IS THUS A CURRENT DRAIN ON FOREIGN EXCHANGE (ARGUABLY INDIRECTLY OFFSET BY FMS CREDIT) WE NOTE THAT THIS IS ONLY ABOUT HALF OF THE TOTAL AND THAT MUCH OF THIS MATERIAL COMES FROM THE U.S. WE MAY THEN BE FACED WITH A BID SITUATION INVOLVING AS COMPETITORS A LESS COMPETITIVE U.S. FIRM, A SECOND

NATION COMMITTED TO MAXIMIZING ITS U.S. MATERIALS CONTENT (ROK) AND A THIRD NATION INCLUDING NO U.S. MATERIALS WHATSOEVER IN ITS DESIGN (EUROPEAN). THE SECOND OPTION WOULD SEEM PREFERABLE TO THE THIRD, BOTH COMMERCIALY AND POLITICALLY. THIS VERY SITUATION HAS APPARENTLY COME TO PASS WITH THE RECENT THAILAND PATROL CRAFT SALE AND KTMI, NOTING THE HIGH QUOTE OF TBC AND THE WINNING DESIGN OF THE EUROPEAN YARD, POSES THE QUESTION, IS NOT HALF OF THE PIE BETTER THAN NONE AT ALL.

10. THE GOI WILL NEGOTIATE AND PURCHASE ALL WEAPONS SYSTEMS SEPARATELY AND KTMI WILL INSTALL THE SYSTEMS UNDER A SEPARATE CONTRACT WITH GOI YET TO BE DISCUSSED. KTMI COULD NOT CONFIRM THE SOURCE OF THE WEAPONS SYSTEMS BUT SUGGESTED THAT A DUTCH-FRENCH WEAPONS SUITE (SIGNAL RADAR AND FIRE CONTROL WITH EXOCET MISSILES) WAS UNDER CONSIDERATION.

11. COMMENT: KTMI GAVE EVERY INDICATION OF BELIEVING ITSELF TO BE ON VERY FIRM LEGAL GROUNDS IN ITS PSK DESIGN AS OFFERED TO GOI. SALISBURY STATED THAT IF FRANK LYNOTT OF TBC TOOK KTMI TO U.S. COURT FOR BREACH OF THE KTMI-TBC TECHNICAL SERVICES AGREEMENT, KTMI WOULD NOT WELCOME THE LEGAL ENTANGLEMENT BUT WOULD BE VERY CONFIDENT OF VINDICATION AND WOULD FULLY COOPERATE WITH APPROPRIATE LEGAL AUTHORITIES. HE SUGGESTED POSSIBILITY
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OF UNSPECIFIED LEGAL ACTION AGAINST TBC IF LATTER CONTINUED TO INTERFERE WITH KTMI EFFORTS.

12. EMBOFFS NOTED THAT USG INVOLVEMENT IN CASE DERIVED PRINCIPALLY FROM: (A) CONCERN THAT THERE BE NO VIOLATION OF MUNITIONS CONTROL RESTRICTIONS, AND (B) THAT ALL PARTIES BE AWARE OF POSSIBLE LEGAL DISPUTE WHICH WAS PRIVATE IN NATURE, WITH NO USG INVOLVEMENT. WE MADE CLEAR EMBASSY TOOK NO POSITION ON MERITS OF THIS LEGAL DISPUTE.

13. KTMI INTENDED TO HAVE ITS REPRESENTATIVE IN THE WASHINGTON AREA IN NEAR FUTURE. WORKING WITH DEFENSE ATTACHE AT ROK EMBASSY, THE KTMI REP PLANS TO CALL ON ALL RESPONSIBLE STATE AND DEFENSE OFFICES TO DISCUSS KTMI'S ACTIVITIES AND ITS RELATIONSHIP WITH TBC.

14. AS REQUESTED IN REF D, APPROPRIATE ROKG OFFICIALS HAVE BEEN INFORMED OF USG CONCERN IN THIS PROPOSED SALE. MINISTRY OF COMMERCE AND INDUSTRY, DEFENSE INDUSTRY, AND SHIPBUILDING BUREAUS INDICATED COMPLETE FAMILIARITY WITH THE SITUATION BUT REQUESTED THAT ALL DISCUSSIONS BE DIRECTED TO THE DEFENSE INDUSTRY BUREAU, MND, WHICH HAS BEEN DESIGNATED THE RESPONSIBLE ROKG AUTHORITY. JUSMAG-KOREA HAS KEPT DIB-MND FULLY INFORMED ALONG LINES OF REF D. INSTRUCTION.
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